



# ***CITY COUNCIL AGENDA REPORT***

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**MEETING DATE: JUNE 8, 2021**

**ITEM NUMBER: 1**

**SUBJECT: FISCAL YEAR 2021-22 PROPOSED OPERATING AND CAPITAL  
IMPROVEMENT PROGRAM BUDGET STUDY SESSION**

**DATE: JUNE 8, 2021**

**FROM: CITY MANAGER'S OFFICE  
FINANCE DEPARTMENT**

**PRESENTATION BY: LORI ANN FARRELL HARRISON, CITY MANAGER  
CAROL MOLINA, FINANCE DIRECTOR**

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## **RECOMMENDATIONS**

Staff recommends that City Council:

1. Review options to decrease overall General Fund spending, eliminate the use of Declared Disaster Reserves, and reduce the increase in the proposed headcount for Fiscal Year 2021-22; and
2. Provide direction on the Fiscal Year 2021-22 Proposed Operating and Capital Improvement Budget to staff in advance of potential final adoption at the June 15, 2021 City Council meeting, but in any event no later than June 30, 2021.

## **BACKGROUND**

The Proposed Budget for FY 2021-22 is designed to invigorate the City's economic recovery through strategic investments in Citywide infrastructure, restoring staffing and services to pre-pandemic levels, and maximizing Federal stimulus dollars while the global, national and regional economies recover from the impacts of COVID-19.

### ***Guiding Principles***

The guiding principles that inspired the recommendations for the FY 2021-22 Budget were created in January 2021, when the City Council conducted a Strategic Planning workshop identifying key priorities, as well as a new Mission Statement for Costa Mesa, as follows:

“The City of Costa Mesa serves our residents, businesses, and visitors by promoting a safe, inclusive, and vibrant community.”

In addition to a new Mission Statement, five new Strategic Plan Goals were developed:

- Recruit and retain high quality staff;
- Achieve long-term fiscal sustainability;
- Strengthen public safety and keep the community safe;
- Maintain and enhance the City’s infrastructure, facilities, equipment and technology; and,
- Diversify, stabilize, and increase housing to reflect community needs.

The recommendations contained in the FY 2021-22 Proposed Budget are rooted in the Five Strategic Plan Goals created by the City Council for a safe, inclusive and vibrant City.

### **ANALYSIS:**

The theme for the FY 2021-22 Proposed Budget, “**Charting the Path to Recovery,**” conveys the restoration of core services while incorporating key strategies to ensure long-term fiscal sustainability. It provides a framework for reinstating service levels reduced during the pandemic while using Federal American Rescue Plan (ARP) funds to sustain core services until revenues return to or exceed pre-pandemic levels.

At the May 25, 2021 City Council Study Session and at the June 1, 2021 Public Hearing regarding the FY 2021-22 Proposed Budget, the City Council provided feedback to staff regarding several items contained in the Proposed Budget. In response to these concerns, staff announced that multiple options would be offered at the June 8<sup>th</sup> Study Session to address the items raised including: options for minimizing the use of Declared Disaster Reserves; reducing overall spending in the Proposed FY 2021-22 General Fund Budget; and if possible, decreasing the proposed headcount changes for FY 2021-22.

### ***Use of Declared Disaster Reserves***

The Proposed Budget for Fiscal Year 2021-22 for the General Fund reflects total expenditures of \$154.4 million and total revenue of \$151.2 million, resulting in the use of \$3.2 million in Declared Disaster Reserves to achieve full balance. This recommendation was made in order to restore as many services as possible while using reserves that were established specifically to address revenue shortfalls during a declared disaster. The COVID-19 global pandemic is a declared Federal, State and Local (both City and County) disaster. It has also been designated as a disaster by global health care agencies, such as the World Health Organization.

Due to early and aggressive fiscal management at the start of the pandemic, the City has not been forced to dip into its reserves during this pandemic, which began in March 2020. To provide budgetary flexibility and to preserve services to the greatest extent possible, however, the City Council authorized the use of up to \$10.3 million in Declared Disaster Reserves over a two to three year period in May of 2020. For reference, there is a total of \$14.1 million in the City's Declared Disaster Reserves.

At this time, it is not anticipated that the City will need to dip into its reserves even for this fiscal year which ends on June 30, 2021. A worst case scenario could result in the use of up to \$2.0 million in reserves by year end. As such, staff feels it is financially prudent to utilize up to the proposed \$3.2 million in reserves next fiscal year, to provide a bridge to fiscal recovery, along with the use of Federal American Rescue Plans funds.

#### *Reduce General Fund Transfer to Capital Fund – Use Debt Service Payment*

However, if the City Council wishes to eliminate all use of the Declared Disaster Reserves for the fiscal year starting this July 1<sup>st</sup>, staff recommends reducing the General Fund Transfer of \$6.9 million to the Capital Improvement Fund (Fund 401) by \$2.8 million, to \$4.1 million. Specifically, staff is recommending to reduce the General Fund contribution by \$2.8 million for two projects as follows: 1) Reconsider the Police Department Gun Range which totals \$1.5 million, during mid-year; and 2) utilize available Gas Tax Funding to the Wilson Street Improvement Project \$0.7 million. In addition, a transfer of \$400,000 in unassigned funding in the Capital Fund to the General Fund will provide the balance needed to eliminate the use of reserves.

To ensure compliance with the CAN, which requires that the City allocate 5 percent of General Fund revenue to Capital Projects, it is recommended that the City use the 2017 Lease Revenue Bonds to be counted towards the total General Fund contribution. According to Section 2-209 of the City's Municipal Code, debt service payments related to capital infrastructure, are an eligible expense. This proposed realignment ensures the continued compliance of the CAN while also eliminating the use of the Declared Disaster Reserves.

Based on the above adjustments/realignments, the Revised Proposed FY 2021-22 Budget totals \$151.6 million in the General Fund for expenditures. The Proposed Budget for revenue would equal \$151.6 million, or \$400,000 more than originally proposed, to achieve full balance without the use of reserves.

The (Revised) Proposed FY 2021-22 General Fund expenditure budget is \$151.6 million. This reflects an increase of \$14.9 million or 11.0 percent, from the FY 2020-21 Adopted Budget of \$136.6 million

<b><u>FY 2021-22 REVISED PROPOSED BUDGET - GENERAL FUND</u></b>		
	<b>Proposed FY 2021-22</b>	<b>Revised Proposed FY 2021-22</b>
Estimated Revenues	\$ 144,622,060	\$ 144,622,060
Transfer In	6,561,529	6,980,620
Use of Fund Balance	3,219,101	-
<b>Total Resources</b>	<b>\$ 154,402,690</b>	<b>\$ 151,602,680</b>
<b>Total Appropriations</b>	<b>\$ 154,402,680</b>	<b>\$ 151,602,680</b>

### ***Options Related to Staffing***

City Council also expressed an interest in revisiting the proposed increase to the City's headcount as shown in the Citywide Table of Organization. Below are three options for City Council consideration to modify proposed staffing changes.

The FY 2021-22 Proposed Budget includes a total of 651.9 full-time equivalent (FTE) employees. This amount reflects a total of 530 full time positions (an increase of 18 FTEs) and 121.9 part time positions (a reduction of 8 FTEs). The net increase to the proposed Table of Organization is 9.9 FTEs. Of this amount, four FTEs are funded by non-General Fund sources.

#### **Option #1: Fund Only Previously Defunded Positions**

This option presents the fiscal impact and positions that would be eliminated if all new positions requests and realignments were removed from the budget. The only positions to be funded would be the previously defunded positions cut in Fiscal Year 2020-21 due to the pandemic. Previously defunded positions can be funded with the use of American Rescue Plan (ARP) funds, but no new positions, reclassifications, or conversions from part time to full time status would be funded. This will essentially return departments to Fiscal Year 2019-20 minimum staffing levels, and provide a General Fund savings of \$1,487,844.

#### **Option #2: Funding Key Positions**

This option presents the fiscal impact of funding only certain key new positions that are responsible for implementing major Council directed special projects and new initiatives.

<b><u>Position</u></b>	<b><u>Fully Loaded</u></b>	<b><u>FTE</u></b>	<b><u>Main Function</u></b>
Active Transportation Coordinator (ATP)	\$175,346	1.0	To aid in the implementation of the City's Active Transportation Plan projects.
Assistant City Manager	\$269,468	1.0	To aid the City Manager in managing the daily activities and operations of the City, ensuring the provision of quality services, while adhering to the City's policies and internal controls.
Arts Specialist	\$120,000	1.0	To oversee the activities of Arts and Culture Master Plan such as coordinating art gallery exhibits, Art Venture, bringing in local artists. This position will be funded through the ½ percent from Measure Q.
IT Manager	\$210,096	1.0	To coordinate the functions of computer systems to ensure that hardware, software, networks, and related applications work smoothly and efficiently. This position is funded through the City's Information Technology Strategic Plan (ITSP) Fund.
General Fund	\$444,814	2.0	
Other Funds	330,096	2.0	
<b>TOTAL</b>	<b>\$774,910</b>	<b>4.0</b>	

These functions are essential to maintain the City's day-to-day activities, while providing the staffing to achieve City Council's goals and priorities. Approving these key positions only will cost \$774,910 resulting in approximate savings of \$712,934.

**Option #3: Funding all Full time position requests, without conversions**

In addition to the four positions recommended for approval above, City Council can choose to approve Option #2 and reconsider all other position requests during the mid-year budget review for potential addition to the budget and Table of Organization.

## **Public Safety Spending Comparison**

One of the main priorities of the FY 2021-22 Proposed Budget is public safety. As such, almost 53 percent of the General Fund Adopted Budget, approximately \$81.5 million is designated for public safety. Below is a chart that compares cities' spending on public safety services.

<b><u>City</u></b>	<b><u>FY 21-22 Proposed General Fund</u></b>	<b><u>Fire</u></b>	<b><u>Police</u></b>	<b><u>% of GF</u></b>
Costa Mesa	\$154.4	\$30.1	\$81.4	52.7%
Newport Beach	\$233.1	\$55.9	\$123.3	52.9%
Santa Ana	\$353.8	\$51.2	\$192.7	54.5%
Long Beach	\$572.0	\$107.7	\$354.8	62.0%
Huntington Beach	\$227.7	\$47.8	\$125.1	54.9%

## **SUMMARY**

At the City Council Study Session held on May 25, 2021 and the Public Hearing held on June 1, 2021, City Council provided comments and direction regarding the strategic use of ARP and reserve funds, as well as other items.

In addition, the FY 2021-22 Proposed Budget was presented to the Finance and Pension Advisory Committee (FiPAC) on May 26, 2021 with another meeting scheduled for June 8, 2021.

Staff appreciates the Committee and City Council's continued support as we navigate the multitude of challenges and ever changing circumstances related to this pandemic in the weeks and months to come.

It is our hope that the FY 2021-22 Proposed Budget creates a solid foundation for Charting a Path Toward Recovery for the City of Costa Mesa for the near future and beyond.

## **LEGAL REVIEW:**

The City Attorney has reviewed and approved this report as to form.

## **CONCLUSION:**

Staff recommends that City Council:

1. Review options to decrease overall General Fund spending, eliminate the use of Declared Disaster Reserves, and reduce the increase in the proposed headcount for Fiscal Year 2021-22; and
2. Provide direction on the Fiscal Year 2021-22 Proposed Operating and Capital Improvement Budget to staff in advance of potential final adoption at the June 15, 2021 City Council meeting, but in any event no later than June 30, 2021.

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